



California
Society

Certified
Public
Accountants

January 14, 2005

Michael E. Alpert, Chairman
Little Hoover Commission
925 L Street, Suite 805
Sacramento, California 95814

Dear Chairman Alpert and Commissioners:

Thank you for this opportunity to comment on the Governor's Reorganization Plan 1.

I am Paul Regan, chair of the California Society of Certified Public Accountants. I am appearing today on behalf of our 27,000 members to express our views on the Governor's Proposed Reorganization Plan 1. We believe that any plan must continue public protection and include these essential elements. The most critical being:

1. A national voice for California CPAs. If the board is abolished, California would be the only state without an appointed accountancy board.
2. Access to public and technical volunteers. Volunteers currently devote thousands of hours annually to regulation of CPAs in California.
3. Effective enforcement. Investigative CPAs and consultants who are up-to-date on professional standards.
4. Review and oversight of enforcement decisions. This board can levy fines of up to \$5 million dollars and can cause thousands of innocent Californians to lose their jobs. Such authority requires oversight.
5. Public access to development of policy and regulations. Board proposals have national and even international ramifications for financial markets.

Following the series of corporate failures that began with Enron, the California Board of Accountancy ("CBA") and the CPA profession have taken a leadership role both within the State of California and nationally—to create fair and reasonable reform in the accounting profession. We have been on the leading edge of several regulatory issues including independence (scope of services), reciprocity, documentation standards, work paper retention, and reporting requirements. We must maintain this momentum.

CalCPA embraced the California Performance Review that recommended continuing the California Board of Accountancy; and were surprised when we were informed of the proposed abolishment of the CBA. We support proposals that reorganize government as long as the reorganization does not result in the loss of significant services or public interest principles fundamental to the entity slated for reorganization.

In your July 2004 Little Hoover Commission report, you state that, among other reasons, previous reform efforts have failed because of: "An unwillingness on the part of stakeholders and other participants to engage in a public process that vets

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alternatives, forges compromises, and holds people accountable to support those compromises as they solidify into policy.”

In this spirit, CalCPA is carefully assessing the governor's proposal and the related ideas of others, to identify what is essential to protect individual consumers, business, the financial markets, and the CPA profession in California. In doing so, we have identified the following **essential elements to effective regulation of the CPA profession** that, we believe, must be implemented efficiently and effectively to protect California's consumers, its businesses and capital markets. These elements will also allow the CPAs and CPA firms that operate within the state, to provide appropriate services to those users.

- **Any system of regulating CPAs must ensure that California continues to have a national voice.** California has been a national leader from the beginning when it licensed its first CPA in 1901 (the year the CBA was established). It was the first state to:
 - Require an ethics exam for CPA candidates,
 - Mandate fraud CPE for auditors, and
 - Respond to the Enron/World Com crises. California debated the issues and developed a model for auditor conduct and reporting well before Sarbanes-Oxley established traction in Congress.

Under the current proposal, California would be the only U.S. jurisdiction with no board of accountancy and California would risk losing its national voice, as well as its vote in the National Association of State Boards of Accountancy, and other national forums.

California has often led the way for other states, as well as the American Institute of CPAs, to follow. Since accounting is becoming a global profession, standards and practices established without input from California's leaders would risk the result that our state's practices and standards, if imposed from outside, would not properly consider the needs of our states citizens.

- **The CBA and its committees provide essential services to California consumers at minimal cost through its network of high-level, committed, public and CPA volunteers.** The Board is composed of 8 non-licensees and 7 CPA members. It has committees and task forces that include other CPAs and non-licensees who provide thousands of hours of technical expertise—on a volunteer basis. **A replacement system must guarantee such a critical mass of committed experts,** who represent a diversity of viewpoints and practice settings, actively review proposed national standards and identify emerging issues, so they can proactively protect consumers.
- Accounting issues are necessarily complex. **For the level of enforcement that California consumers deserve, investigators must have up-to-date technical skills and an in-depth understanding of practice and applicable professional standards.** Adequate funding must be available to attract

quality investigators. They must work closely with other regulatory agencies at the state and national level.

- **In enforcement cases, the Board provides the critical final review of proposed decisions from administrative law judges—this should be continued.** Statutes now allow the board to impose fines of up to \$5 million dollars and take away an individual's or a firm's right to practice. This is enormous power that must be implemented with great expertise and care. **A system of review needs to be in place to guarantee that both the public (consumers, businesses, lenders and the capital markets) and the profession are protected, and their interests are balanced.**
- **It is essential that any plan ensure maximum transparency.** Regulatory decisions made without adequate input may have national consequences. Also, those impacted by such decisions have diverse and important interests. Their views must be carefully analyzed and filtered. This process also is needed in order to provide credibility to the results and the confidence of those most affected.
- Regulation of the CPA profession must include **continuation of proactive efforts to ensure that CPAs maintain competency** by requiring random report reviews (appropriate peer reviews), proper depth and breadth of continuing education requirements (and audits of continuing education reports) and communications of regulations that impact the standards of practice in the state.
- Business and the CPA profession require a significant degree of predictability. **Regulation should be developed and implemented in a way that does not create concern in national and international markets about the feasibility of doing business in California.**

At CalCPA we believe that the CBA has provided the state with a strong advocate for each of the above essential elements for the effective regulation of the CPA profession.

We appreciate the objective and intent of the Governor's Reorganization Plan to support increased efficiencies, economies and effectiveness in our state government. Our concern is that the changes proposed to an existing system, that functions well, will continue to effectively provide the essential elements I have outlined above. We agree with the Commission's December 2004 report on the California Performance Review's proposals:

"Before determining the fate of specific boards, criteria should be established that would allow policy-makers to make consistent and rational decisions and for the public to understand the basis of those decisions."

The proposal to eliminate the California Board of Accountancy, without providing and ensuring what we believe are the essential elements necessary for protection of the

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public, would be unwise. However, we offer to continue to participate in the legislative process, and to actively pursue ideas for regulation of the profession.

Thank you for this opportunity to present our views.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. Paul Regan". The signature is fluid and cursive, with a large loop at the end of the last name.

D. Paul Regan, Chair
CalCPA

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